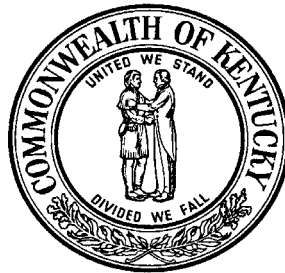


**REPORT OF THE AUDIT OF THE
CARTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Carter County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT

June 30, 2005

Ross & Company, PLLC has completed the audit of the Carter County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Carter County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$4,650,807 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,325,320 in its governmental funds as of June 30, 2005, with total net assets of \$4,614,212. In its enterprise fund, total net cash and cash equivalents were \$16,689 with total net assets of \$36,595. The fiscal court had total debt principal as of June 30, 2005 of \$13,092,914 with \$395,000 due within the next year.

Report Comments:

- Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest
- The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics"
- Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures
- Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- Carter County Fiscal Court Road Logs Do Not Agree
- Lacks Adequate Segregation Of Duties
- Carter County Fiscal Court Has Questioned Costs Of \$3,737 In Federal Emergency Management Agency Funds Due To The Same Invoice Being Used For Multiple Roads
- Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors
- Carter County Fiscal Court Did Not Maintain Appropriate Records For \$286,485 In Federal Emergency Management Agency Expenditures
- Carter County Fiscal Court Should Approve All Payments Of Administrative Cost Related To Federal Emergency Management Agency Grants

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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ROSS & COMPANY, PLLC
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carter County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2006, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest
- The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics"
- Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures
- Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- Carter County Fiscal Court Road Logs Do Not Agree
- Lacks Adequate Segregation Of Duties
- Carter County Fiscal Court Has Questioned Costs Of \$3,737 In Federal Emergency Management Agency Funds Due To The Same Invoice Being Used For Multiple Roads
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- Carter County Fiscal Court Did Not Maintain Appropriate Records For \$286,485 In Federal Emergency Management Agency Expenditures
- Carter County Fiscal Court Should Approve All Payments Of Administrative Cost Related To Federal Emergency Management Agency Grants

Respectfully submitted,



Ross & Company, PLLC

Audit fieldwork completed -
October 9, 2006

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Charles Wallace	County Judge/Executive
Carlos Wells	Magistrate
Jeff Kiser	Magistrate
D. L. McDavid	Magistrate
Judy Roark	Magistrate
Debbie Carper	Magistrate

Other Elected Officials:

Michael Fox	County Attorney
Randy Binion	Jailer
Hugh McDavid	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George Sparks	Coroner

Appointed Personnel:

Cindy Lowe	County Treasurer
------------	------------------

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Carter County

Carter County Courthouse
300 West Main Street, Room 227
Grayson, Kentucky 41143



Phone 606-474-5366
Fax 606-474-6991

CHARLES WALLACE
Carter County Judge Executive

Management's Discussion and Analysis June 30, 2005

The financial management of Carter County, Kentucky offers readers of Carter County's financial statements this narrative overview and analysis of the financial activities of Carter County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Carter County has net assets of \$4,650,807, including current and capital assets, as of June 30, 2005.
- Carter County's total indebtedness at the close of fiscal year June 30, 2005 was \$13,092,914, of which \$12,697,914 is long-term debt (due after 1 year) and \$395,000 is short-term debt (to be paid within 1 year). There were new debt additions during the fiscal year of \$57,914, and debt reductions were \$350,000 during the fiscal year.
- Carter County upgraded its equipment in the Sheriff's Department during the fiscal year, including 4 new cruisers.
- Carter County's new Justice Center was completed and opened during the fiscal year. The construction was financed with the sale of County bonds, and the debt repayment will be made through an agreement with the Administrative Office of the Courts.
- The County received various grants during the fiscal year. A cemetery grant was received from the Governor's Office for Local Development to help restore abandoned cemeteries in the amount of \$25,000, which the County matched with an additional \$25,000. The county also received \$5,800 from FIVCO for courthouse repairs. A \$10,689 Ambulance Board grant was also received for equipment and training. The CDBG project, Rattlesnake Ridge Water Expansion Phase VII, was completed during the fiscal year. The Kentucky Department of Agriculture funded \$1,000 for the purchase of animal control equipment.

The county also administered a grant for the Olive Hill Historical Society in the amount of \$200,000 from the Kentucky Transportation Cabinet.

Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Carter County's basic financial statements. Carter County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Carter County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Carter County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Carter County is improving or deteriorating.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Carter County's governmental activities include general governmental, protection to persons and property, roads, general health and sanitation, and social services. The county has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Carter County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Carter County has one such entity, the Public Properties Detention Center Corporation. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carter County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Carter County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Carter County maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, Local Government Economic Assistance Fund and Enhanced-911 Fund, all of which are considered major funds by the county. The Governor's Surplus Spending Fund, Forestry Fund, CDBG Fund, and Bond Defeasance Fund are considered non-major funds and are represented in combined form.

Carter County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in this analysis for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets and changes in net assets may serve over time as a useful indicator of a government's financial position. Carter County's net assets for governmental activities increased from \$3,167,977 to \$4,650,807 during the fiscal year ended June 30, 2005.

At \$2,308,798, the largest portion of Carter County's net assets is invested in capital assets, net of related debt. During the year, the County increased this portion of net assets through the purchase of various capital assets and the completion of the Justice Center. Additional explanation can be found in Notes 3 and 4 to the financial statements.

The second largest portion of net assets is unrestricted net assets, at \$2,342,009, which increased slightly from the previous year. Unrestricted net assets represents funds that can be spent at the County's discretion.

Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Table 1 presents a comparison of net assets as of June 30, 2004 and June 30, 2005.

Table 1
Net Assets Comparison-Governmental Activities

	2004	2005	Variance
Cash and Cash Equivalents	\$ 2,522,498	\$ 2,342,009	\$ (180,489)
Capital Assets	<u>14,040,125</u>	<u>15,401,712</u>	<u>1,361,587</u>
Total Assets	<u>16,562,623</u>	<u>17,743,721</u>	<u>1,181,098</u>
Current Liabilities	359,646	395,000	35,354
Noncurrent Liabilities	<u>13,035,000</u>	<u>12,697,914</u>	<u>(337,086)</u>
Total Liabilities	<u>13,394,646</u>	<u>13,092,914</u>	<u>(301,732)</u>
Invested in Capital Assets net of related debt	645,479	2,308,798	1,663,319
Restricted Net Assets	830,001		(830,001)
Unrestricted Net Assets	<u>1,692,497</u>	<u>2,342,009</u>	<u>649,512</u>
Total Net Assets	<u><u>\$ 3,167,977</u></u>	<u><u>\$ 4,650,807</u></u>	<u><u>\$ 1,482,830</u></u>

Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Table 2
Statement of Activities Comparison-Governmental Activities

Expenses:	2004	2005	Variance
General Government	\$ 1,454,287	\$ 724,124	\$ (730,163)
Protection to Persons and Property	1,711,472	2,172,590	461,118
General Health and Sanitation	935,649	256,869	(678,780)
Social Services		47,500	47,500
Recreation and Culture	18,813	56,703	37,890
Roads	1,693,052	1,233,710	(459,342)
Interest on Long-Term	585,944	596,398	10,454
Capital Projects	111,782	884,697	772,915
Total Expenses	<u>\$ 6,510,999</u>	<u>\$ 5,972,591</u>	<u>\$ (538,408)</u>
Revenues:			
Charges for Services	\$ 1,232,699	\$ 1,145,991	\$ (86,708)
Operating Grants and Contributions	3,651,816	4,224,782	572,966
Capital Grants and Contributions	968,740		
General Revenues	<u>1,826,865</u>	<u>2,073,340</u>	<u>246,475</u>
Change in Net Assets	1,169,121	1,471,522	302,401
Beginning Net Assets	1,973,897	3,142,690	1,168,793
Ending Net Assets	<u>\$ 3,143,018</u>	<u>\$ 4,614,212</u>	<u>\$ 1,471,194</u>

Financial Analysis of the County's Funds.

As noted earlier, Carter County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Carter County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County government funds was \$2,325,320.

The County has 6 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; 5) Enhanced-911 Fund; and 6) Justice Center Corporation Fund. There are 4 non-major funds. They are the Forestry Fund, CDBG Fund, Governor's Surplus Spending Fund, and the Bond Defeasance Fund.

**Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

1. The General Fund is the chief operating fund of Carter County. At the end of June 30, 2005 fiscal year, the total fund balance of the General Fund was \$1,311,566. The county received \$679,995 in Insurance Premium Tax revenue, which accounts for approximately 28% of total general fund revenues. \$485,684 was received from real and personal property taxes (including motor vehicles), and accounts for approximately 20% of the county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 52% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$336,103 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$79,375.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail fund had a fund balance at June 30, 2005 of \$96,624. That is a decrease of \$62,092 over the previous fiscal year end. Beginning with the 2004-2005 fiscal year, the Detention Center bond payment was incorporated into the actual Jail Fund budget. Previously, the payment was reflected in the Bond Payment Fund, shown as a nonmajor fund in last year's financial statements.
4. The Local Government Economic Assistance Fund had a fund balance of \$87,027, a decrease of \$41,676 over the previous fiscal year end.
5. The Enhanced-911 Fund accounts for the County's emergency operations and is supported primarily from telephone taxes. There was a fund balance of \$228,033 at the end of the June 30, 2005 fiscal year, an increase of \$84,925 from the previous year.
6. The Justice Center Corporation Fund is a blended component unit of the fiscal court. It was established to issue the debt to build the Carter County Justice Center.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Carter County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net capital assets of \$19,906 as of June 30, 2005, and a cash balance of \$16,689.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$21,842. Budget amendments are made to include revenues in excess of projected collections. One amendment was made to the General Fund, to incorporate unbudgeted excess fees, and to allow for the purchase of vehicles.

Actual operating revenues were \$275,983 more than the actual amount budgeted by the Fiscal Court, and actual operating expenses were \$153,116 less than the actual budget.

Capital Assets and Debt Administration.

Capital Assets. Carter County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$15,401,712 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

**Carter County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

**Table 1
Carter County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities	Business-Type Activities	Total
Infrastructure Assets	1,562,045	0	1,562,045
Land	942,900	0	942,900
Bldgs. & Improvements	12,356,651	0	12,356,651
Equipment	385,871	19,906	405,777
Vehicles	134,339	0	134,339
Total Net Capital Assets	\$ 15,381,806	\$ 19,906	\$ 15,401,712

Additional information about capital assets, Carter County's capitalization policy, and depreciation methods can be found in Notes 1. F. and 3. to the Financial Statements.

Long-Term Debt. At the end of the 2005 fiscal year, Carter County had total long-term debt outstanding of \$13,092,914. The amount of this debt due within the next year is \$395,000 and \$12,697,914 is due in subsequent years. This debt is for the Detention Center, and equipment for the Sheriff's Department and Enhanced 911 Fund.

Short-Term Debt. The county has no short-term debt at the end of the fiscal year.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- The 2006 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects that have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests for Information

This financial report is designed to provide a general overview of Carter County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Carter County Treasurer, 300 West Main Street, Room 220, Grayson, Kentucky, 41143.

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CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,325,320	\$ 16,689	\$ 2,342,009
Total Current Assets	<u>2,325,320</u>	<u>16,689</u>	<u>2,342,009</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	942,900		942,900
Buildings	12,356,651		12,356,651
Equipment	385,871	19,906	405,777
Vehicles	134,339		134,339
Infrastructure Assets - Net of Depreciation	<u>1,562,045</u>		<u>1,562,045</u>
Total Noncurrent Assets	<u>15,381,806</u>	<u>19,906</u>	<u>15,401,712</u>
Total Assets	<u>17,707,126</u>	<u>36,595</u>	<u>17,743,721</u>
LIABILITIES			
Current Liabilities:			
Improvement Bonds	105,000		105,000
Revenue Bonds	270,000		270,000
Financing Obligations	<u>20,000</u>		<u>20,000</u>
Total Current Liabilities	<u>395,000</u>		<u>395,000</u>
Noncurrent Liabilities:			
Improvement Bonds	5,775,000		5,775,000
Revenue Bonds	6,675,000		6,675,000
Financing Obligations	<u>247,914</u>		<u>247,914</u>
Total Noncurrent Liabilities	<u>12,697,914</u>		<u>12,697,914</u>
Total Liabilities	<u>13,092,914</u>		<u>13,092,914</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	\$ 2,288,892	\$ 19,906	\$ 2,308,798
Unrestricted	<u>2,325,320</u>	<u>16,689</u>	<u>2,342,009</u>
Total Net Assets	<u>\$ 4,614,212</u>	<u>\$ 36,595</u>	<u>\$ 4,650,807</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 724,124	\$ 87,227	\$ 1,286,623
Protection to Persons and Property	2,172,590	1,058,764	249,467
General Health and Sanitation	256,869		
Social Services	47,500		279,646
Recreation and Culture	56,703		
Roads	1,233,710		2,409,046
Interest on Long Term Debt	596,398		
Capital Projects	884,697		
Total Governmental Activities	5,972,591	1,145,991	4,224,782
Business-type Activities:			
Jail Canteen Fund	23,492	35,128	
Total Business-type Activities	23,492	35,128	
Total Primary Government	\$ 5,996,083	\$ 1,181,119	\$ 4,224,782

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

In Lieu Tax Payments

Excess Fees

Licenses and Permits

Interest

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 649,726	\$	\$ 649,726
(864,359)		(864,359)
(256,869)		(256,869)
232,146		232,146
(56,703)		(56,703)
1,175,336		1,175,336
(596,398)		(596,398)
(884,697)		(884,697)
(601,818)		(601,818)
	11,636	11,636
	11,636	11,636
(601,818)	11,636	(590,182)
337,951		337,951
26,721		26,721
105,440		105,440
1,114,920		1,114,920
13,709		13,709
52,488		52,488
40,920		40,920
26,865		26,865
354,326		354,326
2,073,340		2,073,340
1,471,522	11,636	1,483,158
3,142,690	24,959	3,167,649
\$ 4,614,212	\$ 36,595	\$ 4,650,807

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Bond Fund	Enhanced 911 Corporation
ASSETS					
Cash and Cash Equivalents	\$ 1,311,566	\$ 336,103	\$ 96,624	\$ 87,027	\$ 228,033
Total Assets	<u>\$ 1,311,566</u>	<u>\$ 336,103</u>	<u>\$ 96,624</u>	<u>\$ 87,027</u>	<u>\$ 228,033</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 146,307	\$ 46,989	\$ 47,164	\$ 87,027	\$ 4,670
Unreserved:					
General Fund Type	1,165,259				
Special Revenue Fund Types		289,114	49,460		223,363
Capital Projects Fund Type					
Total Fund Balances	<u>\$ 1,311,566</u>	<u>\$ 336,103</u>	<u>\$ 96,624</u>	<u>\$ 87,027</u>	<u>\$ 228,033</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 176,947</u>	<u>\$ 89,020</u>	<u>\$ 2,325,320</u>
<u>\$ 176,947</u>	<u>\$ 89,020</u>	<u>\$ 2,325,320</u>
\$	\$	\$ 332,157
		1,165,259
	89,020	650,957
<u>176,947</u>		<u>176,947</u>
<u>\$ 176,947</u>	<u>\$ 89,020</u>	<u>\$ 2,325,320</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,325,320
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	18,134,925
Depreciation	(2,753,119)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(267,914)
Bonded Debt	<u>(12,825,000)</u>
Net Assets Of Governmental Activities	<u>\$ 4,614,212</u>

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,316,855	\$	\$	\$
In Lieu Tax Payments	13,709			
Excess Fees	52,488			
Licenses and Permits	40,920			
Intergovernmental	625,194	2,409,046	1,161,466	279,646
Charges for Services	87,227		6,778	
Miscellaneous	259,558	3,472	217,203	4,458
Interest	9,174	6,983	1,088	570
Total Revenues	<u>2,405,125</u>	<u>2,419,501</u>	<u>1,386,535</u>	<u>284,674</u>
EXPENDITURES				
General Government	1,110,603			11,122
Protection to Persons and Property	18,083		1,091,330	242,510
General Health and Sanitation	77,370			179,499
Social Services	47,500			
Recreation and Culture				56,703
Roads		2,071,384		13,906
Debt Service				
Principal			85,000	
Interest			292,043	
Capital Projects	76,576	59,094		
Administration	314,444	107,295	230,254	72,610
Total Expenditures	<u>1,644,576</u>	<u>2,237,773</u>	<u>1,698,627</u>	<u>576,350</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>760,549</u>	<u>181,728</u>	<u>(312,092)</u>	<u>(291,676)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	57,914			
Transfers From Other Funds		75,000	250,000	250,000
Transfers To Other Funds	(575,000)			
Total Other Financing Sources (Uses)	<u>(517,086)</u>	<u>75,000</u>	<u>250,000</u>	<u>250,000</u>
Net Change in Fund Balances	243,463	256,728	(62,092)	(41,676)
Fund Balances - Beginning (Restated)	1,068,103	79,375	158,716	128,703
Fund Balances - Ending	<u>\$ 1,311,566</u>	<u>\$ 336,103</u>	<u>\$ 96,624</u>	<u>\$ 87,027</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Enhanced 911 Fund	Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 264,134	\$	\$ 4,043	\$ 1,585,032
			13,709
			52,488
			40,920
	661,429		5,136,781
9,622			94,005
1,396	6,984	670	494,313
275,152	668,413	4,713	26,865
			7,444,113
			1,121,725
161,982		3,456	1,517,361
			256,869
			47,500
			56,703
			2,085,290
	265,000		350,000
	304,355		596,398
	749,027		884,697
28,245	2,757		755,605
190,227	1,321,139	3,456	7,672,148
84,925	(652,726)	1,257	(228,035)
			57,914
			575,000
			(575,000)
			57,914
84,925	(652,726)	1,257	(170,121)
143,108	829,673	87,763	2,495,441
\$ 228,033	\$ 176,947	\$ 89,020	\$ 2,325,320

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (170,121)
--	--------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,946,305
Depreciation Expense	(596,748)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation	(57,914)
----------------------	----------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Bond Payments	350,000
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Change in Net Assets of Governmental Activities	\$ 1,471,522
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CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 16,689
Total Current Assets	<u>16,689</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	30,176
Less Accumulated Depreciation	<u>(10,270)</u>
Total Noncurrent Assets	<u>19,906</u>
Total Assets	<u>36,595</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	19,906
Unrestricted	<u>16,689</u>
Total Net Assets	<u><u>\$ 36,595</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 35,128
Total Operating Revenues	<hr/> 35,128 <hr/>
Operating Expenses	
Educational and Recreational	6,636
Equipment	19,132
Personnel Costs	5,045
Miscellaneous	4,709
Total Operating Expenses	<hr/> 35,522 <hr/>
Operating Loss	<hr/> (394) <hr/>
Change In Net Assets	(394)
Total Net Assets - Beginning	17,083
Total Net Assets - Ending	<hr/> \$ 16,689 <hr/>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Sales Commission	\$ 35,128
Educational and Recreational	(6,636)
Equipment	(19,132)
Personnel Costs	(5,045)
Miscellaneous	(4,709)
Net Cash Used By	
Operating Activities	(394)
Net Decrease in Cash and Cash	
Equivalents	(394)
Cash and Cash Equivalents - July 1	17,083
Cash and Cash Equivalents - June 30	\$ 16,689
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	\$ (394)
Net Cash Used By Operating	
Activities	\$ (394)

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 15,575</u>
Total Assets	<u><u>\$ 15,575</u></u>
Liabilities	
Amounts Held In Custody For Others	<u>\$ 15,575</u>
Total Liabilities	<u><u>\$ 15,575</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Carter County Justice Center Corporation

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Carter County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Carter County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Enhanced 911 Fund - This fund accounts for the County's emergency operations and is supported primarily from telephone taxes.

Justice Center Corporation Fund - This fund accounts for the activities of the Carter County Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation fund issued the debt to build the justice center. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Governor's Surplus Spending Fund, Forestry Fund, Bond Defeasance Fund, Jail Bond Debt Service Fund, and Community Development Block Grant Fund.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30, following delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Enhanced 911 Fund, Governor's Surplus Spending Fund, Forestry Fund, and Bond Defeasance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Jail Bond Debt Service Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

F. Capital Assets

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, non-depreciable land improvements, and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	25-40
Buildings	\$ 25,000	30-40
Building Improvements	\$ 25,000	15-25
Machinery and Equipment	\$ 2,500	5-10
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	15-25

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Governor’s Office for Local Development does not require this fund to be budgeted.

J. Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the Ambulance Service is considered a related organization of the Carter County Fiscal Court.

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky Counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Construction In Progress	6,000,000		(6,000,000)	
Total Capital Assets Not Being Depreciated	6,942,900		(6,000,000)	942,900
Capital Assets, Being Depreciated:				
Buildings	7,054,070	6,749,027		13,803,097
Equipment	896,654	68,215		964,869
Vehicles	614,974	86,892		701,866
Infrastructure	680,022	1,042,171		1,722,193
Total Capital Assets Being Depreciated	9,245,720	7,946,305		17,192,025
Less Accumulated Depreciation For:				
Buildings	(1,116,920)	(329,526)		(1,446,446)
Equipment	(475,129)	(103,869)		(578,998)
Vehicles	(518,987)	(48,540)		(567,527)
Infrastructure	(45,335)	(114,813)		(160,148)
Total Accumulated Depreciation	(2,156,371)	(596,748)		(2,753,119)
Total Capital Assets, Being Depreciated, Net	7,089,349	7,349,557		14,438,906
Governmental Activities Capital Assets, Net	<u>\$ 14,032,249</u>	<u>\$ 7,349,557</u>	<u>\$ (6,000,000)</u>	<u>\$ 15,381,806</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 12,181	\$ 17,995	\$	\$ 30,176
Total Capital Assets Being Depreciated	12,181	17,995		30,176
Less Accumulated Depreciation For:				
Vehicles and Equipment	(4,305)	(5,965)		(10,270)
Total Accumulated Depreciation	(4,305)	(5,965)		(10,270)
Total Capital Assets, Being Depreciated, Net	7,876	12,030		19,906
Business-Type Activities Capital Assets, Net	<u>\$ 7,876</u>	<u>\$ 12,030</u>	<u>\$ 0</u>	<u>\$ 19,906</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 34,225
Protection to Persons and Property	411,012
Roads, Including Depreciation of General Infrastructure Assets	<u>151,511</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 596,748</u>

Business-Type Activities

Jail Canteen	<u>\$ 5,965</u>
Total Depreciation Expense - Business Activities	<u>\$ 5,965</u>

Note 4. Long-term Debt

A. Improvement Bonds, Series 2001

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on November 1, 2001, and the principal payments commenced on May 1, 2003. As of June 30, 2005, the principal amount outstanding was \$5,880,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 105,000	\$ 288,812
2007	110,000	284,718
2008	115,000	280,318
2009	125,000	275,602
2010	130,000	270,353
2011-2015	735,000	1,261,231
2016-2020	940,000	1,069,270
2021-2025	1,235,000	807,938
2026-2030	1,605,000	456,381
2031-2032	<u>780,000</u>	<u>60,475</u>
Totals	<u>\$ 5,880,000</u>	<u>\$ 5,055,098</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2002

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Justice Center by the Administrative Office of the Courts. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the Administrative Office of Courts to do so.

The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on March 1, 2003, and the principal payments commenced on March 1, 2004. As of June 30, 2005, the principal amount outstanding was \$6,945,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 270,000	\$ 297,730
2007	275,000	290,170
2008	285,000	281,645
2009	295,000	272,098
2010	310,000	261,478
2011-2015	1,750,000	1,113,980
2016-2020	2,180,000	698,948
2021-2023	1,580,000	156,356
Totals	<u>\$ 6,945,000</u>	<u>\$ 3,372,405</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

C. Kentucky Area Development District Financing Program

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the lease were used to fund a portion of the construction costs associated with the new Justice Center. A principal payment of \$170,000 was paid on May 28, 2004 with the remaining principal due annually commencing on December 1, 2005. The agreement requires semiannual interest payments at an average rate of 3.86 percent. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. The principal outstanding as of June 30, 2005 was \$210,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 10,000	\$ 7,230
2007	15,000	7,020
2008	15,000	6,728
2009	15,000	6,382
2010	15,000	5,981
2011-2015	55,000	23,966
2016-2020	55,000	13,109
2021-2023	30,000	2,160
Totals	<u>\$ 210,000</u>	<u>\$ 72,576</u>

D. Sheriff's Vehicles - 2005

On January 20, 2005, the fiscal court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of vehicles for the sheriff's office. The lease term is for four years, with the balance to be paid in full on July 20, 2009. The balance of the financing obligation at June 30, 2005 was \$57,914. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 10,000	\$ 1,744
2007	10,000	1,390
2008	10,000	1,037
2009	10,000	683
2010	17,914	55
Totals	<u>\$ 57,914</u>	<u>\$ 4,909</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Improvement Bonds	\$ 5,965,000	\$	\$ 85,000	\$ 5,880,000	\$ 105,000
Revenue Bonds	7,210,000		265,000	6,945,000	270,000
Financing Obligations	210,000	57,914		267,914	20,000
Governmental Activities					
Long-term Liabilities	<u>\$ 13,385,000</u>	<u>\$ 57,914</u>	<u>\$ 350,000</u>	<u>\$13,092,914</u>	<u>\$ 395,000</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2005, Carter County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Prior Period Adjustment

The fund balance of the Justice Center Corporation has been restated by \$328 for a miscalculation in the prior year.

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CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,188,000	\$ 1,188,000	\$ 1,316,855	\$ 128,855
In Lieu Tax Payments	1,000	1,000	13,709	12,709
Excess Fees	45,000	66,842	52,488	(14,354)
Licenses and Permits	29,500	29,500	40,920	11,420
Intergovernmental Revenue	591,300	591,300	625,194	33,894
Charges for Services	93,000	93,000	87,227	(5,773)
Miscellaneous	151,000	151,000	259,558	108,558
Interest	8,500	8,500	9,174	674
Total Revenues	<u>\$ 2,107,300</u>	<u>\$ 2,129,142</u>	<u>\$ 2,405,125</u>	<u>\$ 275,983</u>
EXPENDITURES				
General Government	1,266,060	1,266,060	1,110,603	155,457
Protection to Persons and Property	22,410	44,252	18,083	26,169
General Health and Sanitation	64,405	64,405	77,370	(12,965)
Social Services	50,000	50,000	47,500	2,500
Capital Projects			76,576	(76,576)
Administration	372,975	372,975	314,444	58,531
Total Expenditures	<u>\$ 1,775,850</u>	<u>\$ 1,797,692</u>	<u>\$ 1,644,576</u>	<u>\$ 153,116</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>331,450</u>	<u>331,450</u>	<u>760,549</u>	<u>429,099</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			57,914	57,914
Transfers To Other Funds	(1,236,550)	(1,236,550)	(575,000)	661,550
Total Other Financing Sources (Uses)	<u>\$ (1,236,550)</u>	<u>\$ (1,236,550)</u>	<u>\$ (517,086)</u>	<u>\$ 719,464</u>
Net Changes in Fund Balance	(905,100)	(905,100)	243,463	1,148,563
Fund Balance - Beginning	<u>905,100</u>	<u>905,100</u>	<u>1,068,103</u>	<u>163,003</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,311,566</u>	<u>\$ 1,311,566</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,374,602	\$ 1,374,602	\$ 2,409,046	\$ 1,034,444
Miscellaneous	500	500	3,472	2,972
Interest	1,500	1,500	6,983	5,483
Total Revenues	<u>\$ 1,376,602</u>	<u>\$ 1,376,602</u>	<u>\$ 2,419,501</u>	<u>\$ 1,042,899</u>
EXPENDITURES				
Roads	\$ 1,801,180	\$ 1,801,180	\$ 2,071,384	\$ (270,204)
Capital Projects	120,000	120,000	59,094	60,906
Administration	221,972	221,972	107,295	114,677
Total Expenditures	<u>\$ 2,143,152</u>	<u>\$ 2,143,152</u>	<u>\$ 2,237,773</u>	<u>\$ (94,621)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(766,550)</u>	<u>(766,550)</u>	<u>181,728</u>	<u>948,278</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	541,550	541,550	75,000	(466,550)
Total Other Financing Sources (Uses)	<u>541,550</u>	<u>541,550</u>	<u>75,000</u>	<u>(466,550)</u>
Net Changes in Fund Balance	(225,000)	(225,000)	256,728	481,728
Fund Balance - Beginning	<u>225,000</u>	<u>225,000</u>	<u>79,375</u>	<u>(145,625)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 336,103</u>	<u>\$ 336,103</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 992,000	\$ 992,000	\$ 1,161,466	\$ 169,466
Charges for Services	8,000	8,000	6,778	(1,222)
Miscellaneous	121,400	133,900	217,203	83,303
Interest	1,300	1,300	1,088	(212)
Total Revenues	<u>\$ 1,122,700</u>	<u>\$ 1,135,200</u>	<u>\$ 1,386,535</u>	<u>\$ 251,335</u>
EXPENDITURES				
Protection to Persons and Property	\$ 1,005,907	\$ 1,042,407	\$ 1,091,330	\$ (48,923)
Debt Service				
Principal	85,000	85,000	85,000	
Interest	292,043	292,043	292,043	
Administration	244,750	254,450	230,254	24,196
Total Expenditures	<u>\$ 1,627,700</u>	<u>\$ 1,673,900</u>	<u>\$ 1,698,627</u>	<u>\$ (24,727)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(505,000)</u>	<u>(538,700)</u>	<u>(312,092)</u>	<u>226,608</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	380,000	380,000	250,000	(130,000)
Total Other Financing Sources (Uses)	<u>380,000</u>	<u>380,000</u>	<u>250,000</u>	<u>(130,000)</u>
Net Changes in Fund Balance	(125,000)	(158,700)	(62,092)	96,608
Fund Balance - Beginning	<u>125,000</u>	<u>158,700</u>	<u>158,716</u>	<u>16</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96,624</u>	<u>\$ 96,624</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 261,050	\$ 261,050	\$ 279,646	\$ 18,596
Miscellaneous	150	150	4,458	4,308
Interest	800	800	570	(230)
Total Revenues	262,000	262,000	284,674	22,674
EXPENDITURES				
General Government	13,245	13,245	11,122	2,123
Protection to Persons and Property	249,710	249,710	242,510	7,200
General Health and Sanitation	137,830	137,830	179,499	(41,669)
Social Services	500	500		500
Recreation and Culture	60,516	60,516	56,703	3,813
Roads	60,000	60,000	13,906	46,094
Administration	90,715	90,715	72,610	18,105
Total Expenditures	\$ 612,516	\$ 612,516	\$ 576,350	\$ 36,166
Excess (Deficiency) of Revenues Over Expenditures	(350,516)	(350,516)	(291,676)	58,840
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	215,000	215,000	250,000	35,000
Total Other Financing Sources (Uses)	\$ 215,000	\$ 215,000	\$ 250,000	\$ 35,000
Net Changes in Fund Balances	(135,516)	(135,516)	(41,676)	93,840
Fund Balances - Beginning	135,516	135,516	128,703	(6,813)
Fund Balances - Ending	\$ 0	\$ 0	\$ 87,027	\$ 87,027

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ENHANCED 911			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 254,000	\$ 254,000	\$ 264,134	\$ 10,134
Miscellaneous	300	300	9,622	9,322
Interest	750	750	1,396	646
Total Revenues	<u>\$ 255,050</u>	<u>\$ 255,050</u>	<u>\$ 275,152</u>	<u>\$ 20,102</u>
EXPENDITURES				
Protection to Persons and Property	\$ 426,250	\$ 426,250	\$ 161,982	\$ 264,268
Administration	34,760	34,760	28,245	6,515
Total Expenditures	<u>\$ 461,010</u>	<u>\$ 461,010</u>	<u>\$ 190,227</u>	<u>\$ 270,783</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(205,960)</u>	<u>(205,960)</u>	<u>84,925</u>	<u>290,885</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	100,000	100,000		(100,000)
Total Other Financing Sources (Uses)	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 0</u>	<u>\$ (100,000)</u>
Net Changes in Fund Balances	(105,960)	(105,960)	84,925	190,885
Fund Balances - Beginning	<u>105,960</u>	<u>105,960</u>	<u>143,108</u>	<u>37,148</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 228,033</u>	<u>\$ 228,033</u>

CARTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Justice Center Corporation Fund.

The State Local Finance Officer does not require the Justice Center Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Governor's Surplus Spending Fund	Forestry Fund	Bond Defeasance Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 11,326	\$ 12,332	\$ 65,362	\$ 89,020
Total Assets	<u>\$ 11,326</u>	<u>\$ 12,332</u>	<u>\$ 65,362</u>	<u>\$ 89,020</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 11,326	\$ 12,332	\$ 65,362	\$ 89,020
Total Fund Balances	<u>\$ 11,326</u>	<u>\$ 12,332</u>	<u>\$ 65,362</u>	<u>\$ 89,020</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Governor's Surplus Spending Fund	Forestry Fund	Bond Defeasance Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 4,043	\$	\$ 4,043
Interest	85		585	670
Total Revenues	<u>\$ 85</u>	<u>\$ 4,043</u>	<u>\$ 585</u>	<u>\$ 4,713</u>
EXPENDITURES				
Protection to Persons and Property	\$	\$ 3,456	\$	\$ 3,456
Total Expenditures	<u>\$ 0</u>	<u>\$ 3,456</u>	<u>\$ 0</u>	<u>\$ 3,456</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>85</u>	<u>587</u>	<u>585</u>	<u>1,257</u>
Net Change in Fund Balances	85	587	585	1,257
Fund Balances - Beginning	11,241	11,745	64,777	87,763
Fund Balances - Ending	<u><u>\$ 11,326</u></u>	<u><u>\$ 12,332</u></u>	<u><u>\$ 65,362</u></u>	<u><u>\$ 89,020</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky.
2. Five (5) reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Two (2) instances of noncompliance material to the financial statements of Carter County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Carter County expresses an unqualified opinion.
6. Findings relative to the major federal awards programs for Carter County are reported in Part C of this schedule.
7. The program tested as a major program was: FEMA Reimbursement, CFDA #97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Carter County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-01

Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest

During the course of the audit, transactions were reviewed involving subcontractor business relationships with the County Judge/Executive and the County Attorney.

The transactions involving the County Judge/Executive pertained to a local vendor selling pipe to the county. The local vendor purchased the pipe from a company owned by the spouse of the County Judge/Executive. The County Judge/Executive transferred his shares of the company on January 2, 2003. The County Judge/Executive provided copies of tax returns to represent that his spouse's company only made a profit in one of the last three years. The percent of sales to the county was a small percentage of total company gross revenue.

The APA did not attempt to determine if the company owned by the spouse made a profit on individual sales to the county. The Fiscal Court did not have all original invoices from the local vendor. The County Judge/Executive had previously disclosed on an audit questionnaire a statement regarding his wife's company, that stated, "my wife owns a contracting supply business which quotes and bids to suppliers that may resale to county". The county, for the period July 1, 2003 - June 30, 2005, purchased \$101,938 of pipe from the local vendor who then purchased from the company owned by the County Judge/Executive's spouse.

**CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-01

Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest (Continued)

The County Attorney is one of four owners of a company that provides services to a subcontractor to clean up storm damage from an ice storm in 2003. At the time the Fiscal Court entered into a contract with a vendor to clean up storm damage debris, the company of which the County Attorney is a part owner did not have a subcontract. Based on interviews, it appears that the company that was hired by Fiscal Court to provide services sought out additional local resources due to the magnitude of the project. The total paid to the company, of which the County Attorney is a part owner, was \$59,853 for services. The total reimbursement to the vendor hired by Fiscal Court was in excess of \$900,000, which included payments to all subcontractors who provided services to the vendor.

The County Clerk is also an owner of the company with the County Attorney, as well as two non-county employees.

The APA has carefully reviewed the Carter County Ethics Code, applicable state statutes, OAG opinions, and other relevant information made available to us.

The County Judge/Executive and the County Attorney did not contract directly with the Fiscal Court to provide any services. Given the role of subcontractors as referenced in this finding, we recommend that the following actions be pursued:

- The Fiscal Court should review the ethics code to determine if vendors may utilize subcontractors with any type of business relationship to county officials.
- The Fiscal Court should consider amending the procurement code to require vendors doing business with Fiscal Court to disclose any subcontractors to Fiscal Court, including any owner or officers, not only at the time of award, but during the period the contract is in force.
- The Fiscal Court should consult with the Office of the Attorney General and the Governor's Office for Local Development to review the Ethics Code and procurement code to assure compliance with all applicable state laws.

The transactions referenced in this finding included payments with FEMA funds of \$32,108 to the company owned by the County Judge/Executive's spouse, and \$59,853 paid to a company of which the County Attorney was a part owner and which functioned as a subcontractor relating to the 2003 ice storm cleanup. In order to qualify for federal funds, the Fiscal Court should assure that all procurement policies comply with state law and these amounts could be in question.

County Judge/Executive Charles Wallace's Response:

I look forward to working with the Carter County Fiscal Court to establish a stronger ethics code for the county and to tighten up these loose ends so this will not be a problem in the future.

**CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-01

Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest (Continued)

County Attorney Michael B. Fox's Response:

In the aftermath of the 2003 ice storm the Carter County Fiscal Court solicited bids from contractors interested in cleaning up the debris left by the storm. The company I have a minority interest in was not involved whatsoever in this competitive bid process. In fact, Mainline Communications was not involved in the project until a subcontractor of the winning bidder contacted Mainline requesting assistance in identifying local citizens to work on the project. Mainline agreed to assist the subcontractor so that local citizens would have the opportunity to obtain employment with this project. In fact, Mainline experienced a financial net loss from its participation in this project.

Prior to Mainline's participation I reviewed the relevant statutes, policies and Attorney General opinions and determined that Mainline's participation as described above was legally permissible. I shared my research with other attorneys and they agreed with my conclusions. Finally, I advised Magistrates of Mainline's anticipated role in this project and explained my research and conclusions and there was no objection.

Reference Number 2005-02

The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics"

Judge/Executive Charles Wallace, the Jailer, Coroner, and all of the Magistrates failed to disclose outside sources of income of over \$1,000 and/or names and addresses of immediate family to the County Clerk by the stated date of January 15 of each year. (County's Code of Ethics Section III part B)

In the review of the minutes of the Fiscal Court, there did not appear to be any statements recorded where the Judge/Executive disclosed his indirect interests in the purchase of pipes by the county. Also, there was no evidence in the minutes where he removed himself from the participation in the decisions or voting on the matter. (County's Code of Ethics Section III part C)

Questionable hiring of related employees may have occurred by the hiring of the Judge/Executive's Secretary. (County's Code of Ethics Section IV)

(It was brought to the attention of the auditors that the Judge's secretary was hired directly and without the consent of the Court according to multiple individuals. The minutes were examined and we failed to find evidence that the Fiscal Court approved the hiring, no evidence that the position was posted as required by the county's administrative code, and failed to acquire a copy of the posting, nor was there any record of applicants for the position. We spoke to one potential applicant who was highly qualified and said he/she would have applied for the position.)

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-02

The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics" (Continued)

There was no evidence that the failure to comply penalty of this section was executed or fulfilled resulting in a fine of \$500. (County Code of Ethics Section III part D)

County Judge/Executive Charles Wallace's Response:

Refer to attached minutes and KRS 67.711(1).

The following is an excerpt from the May 26, 2004 Fiscal Court Special Session minutes:

"Judge Charles Wallace notified the Court that Dee Wallace has been hire as his secretary at \$10.17 per hr."

The following is an excerpt from the Legislative Research Commission's Informational Bulletin No. 114, Duties of Elected County Officials:

County Personnel

The county judge/executive has the authority, under KRS 67.710(7), to appoint, supervise, suspend, and remove county personnel, with fiscal court approval, unless state law provides otherwise. KRS 67.711(1) gives the county judge/executive the express authority to appoint a deputy county judge/executive and a reasonable number of other clerical workers and assistants. The fiscal court does have the authority to limit the number of such personnel and provide for their salary, as long as it is reasonable (KRS 67.711(1)). A list of specific appointments which various statutes empower him to make is found in TABLE II.

Reference Number 2005-03

Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures

During testing we noted 22 out of 146 items or \$201,220 out of \$1,509,763 of nonfederal expenditures tested did not have proper supporting documentation. The majority of the expenditures paid without the appropriate documentation were road materials, utilities and office supplies with the largest single expenditure being \$82,881 for road materials. In addition, we noted instances where the county was not paying from an original invoice but from billing summaries provided by the vendor.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original invoices should be maintained, agreed to the corresponding purchase order, and canceled upon payment. Copies are not acceptable.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-03

Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures
(Continued)

We recommend the fiscal court maintain all original invoices and cancel upon payment. Also, invoices should be agreed to purchase orders and discrepancies should be investigated and resolved.

County Judge/Executive Charles Wallace's Response:

I was not aware that documentation was missing.

Reference Number 2005-04

Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code

The fiscal court did not follow bidding requirements outlined in the county's administrative code. We noted three (3) specific instances related to inconsistent bid procedures.

- On November 8, 2005, the fiscal court approved the cleanup on Friar Hollow Dump without designating a specific contractor. According to the contractor, it was his understanding he was to be paid by the hour and that fiscal court approved this work. The contractor had had numerous conversations with different fiscal court members regarding the clean up process and that he had done this type of work for the fiscal court before. The contractor submitted invoices totaling \$19,350 for Friar Hollow Dump. On January 19, 2006, fiscal court order minutes reflected, "The County Attorney advised the magistrates and County Judge that any claims presented on Fryer Hollow or any other project that exceed \$10,000.00 not be paid unless that entity has been awarded a bid." The contractor has not pursued the balance owed. The county did not bid this project and based on interviews with county officials and the contractor, the performance of the work is not in question.
- On September 14, 2004, the fiscal court received five (5) bid proposals at various prices and voted to accept all bids. The fiscal court did not comply with its own administrative code. Section 422.4 of the county's administrative code states, "the best negotiated proposal shall be submitted to the fiscal court for approval and award." During the fiscal year ended June 30, 2005, the fiscal court spent over \$1.4 million on road materials, (gravel, blacktop, and pipe) and based on the blanket bid approval, it would appear this amount could have been less.
- During the course of our audit, the County Judge/Executive brought to our attention, one vendor who was awarded a bid for drill setting and cribbing. The fiscal court paid \$69,080 to this vendor on December 12, 2002. On February 1, 2006, Federal Emergency Management Agency (FEMA) inspectors disallowed \$32,762 of this amount. The report stated, "the rails/crib repair to be a 120 feet of single line of rails compared to the 200 feet long double row repair that was called for in the scope of work in the original PW [project worksheet]." We reviewed these invoices and other invoices submitted by this contractor to the fiscal court and could not determine whether the fiscal court paid the appropriate amount as outlined in the bid contract.

**CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-04

Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code (Continued)

We recommend the fiscal court comply with its own administrative code by negotiating and awarding the best bid proposal. Competitive bidding ensures that the fiscal court procures materials and services at the best price available. We further recommend the fiscal court require detailed invoices to ensure the work awarded was the work completed and that the work should not be authorized based on a verbal request. We are referring this matter to the County Attorney to determine if any additional actions are warranted to properly comply with the county's procurement policy and bid contracts.

County Judge/Executive Charles Wallace's Response:

Refer to November Fiscal Court minutes authorizing solid waste coordinator to begin work to avoid potential fines from EPA. The Fiscal Court accepted all bids because of the availability of materials. See attached page for another possible loss of funds.

See Appendix B.

Reference Number 2005-05

Carter County Fiscal Court Road Logs Do Not Agree

We compared road logs provided to us from the fiscal court, the road department, and a magistrate. The logs were for the same time period and did not agree. The logs included numerous discrepancies, which would make a comparison or reconciliation virtually impossible.

Road logs provide a detailed listing of work completed by the road employees each day including the materials used. We could not determine if the fiscal court approved all the work actually performed or if the work submitted was actually completed.

We recommend that the road department submit signed, certified copies of all road logs to all members of the fiscal court and that a current road plan be documented by the fiscal court minutes and updated at each meeting.

County Judge/Executive Charles Wallace's Response:

The road logs will now be recorded in the minutes.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2005-06

Lacks Adequate Segregation Of Duties

The County has a lack of adequate segregation of duties. We recommend the following controls be implemented to achieve a proper segregation of duties:

- An independent person should list all receipts and tie them with the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, deposit shortages, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and canceled checks.
- A person who is independent from receiving and billing should open all incoming mail and secure the unopened bids until the Fiscal Court Meeting.

County Judge/Executive Charles Wallace's Response:

We are restricted because of staff size and budgetary shortages, but we will try to develop procedures to implement some of these controls.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

Reference Number 2005-07

Carter County Fiscal Court Has Questioned Costs Of \$3,737 In Federal Emergency Management Agency Funds Due To The Same Invoice Being Used For Multiple Roads

During federal testing we noted an invoice dated June 28, 2004, in the amount of \$3,737 listing two (2) pipes. This invoice was used as supporting documentation for three (3) different roads (Fannin Cemetery Road, Vicie Road, and Coal Camp Road). Due to the lack of detail on the invoice, we could not determine which road(s) these pipes were used on or if they were actually used on the named roads.

According to the Federal Emergency Management Agency (FEMA) Policy Handbook, a grant recipient is required to establish and maintain accurate records of events and expenditures related to disaster recovery work.

We recommend Carter County maintain documentation according to FEMA guidelines, which includes maintaining an accurate record of events recorded by disaster. The county should require detailed invoices in order to ensure the appropriate work is being completed at the appropriate place. We question \$3,737 in federal funds.

County Judge/Executive Charles Wallace's Response:

Had three projects that had the same receipt from Diamond Gate. It went with two projects. The third was the wrong receipt, and it will be corrected.

Reference Number 2005-08

Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors

During our review of the Schedule of Expenditures of Federal Awards (SEFA) we noted the following errors:

- Approximately \$71,392 of federal funds, which were expended during the fiscal year, were not included on the schedule.
- \$89,964 of the expenditures were included in the schedule but, in fact, were expended in the prior fiscal year.

OMB Circular A-133, Subpart C-Auditees; _____. 300 Auditee responsibilities states, "The auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with _____.310."
- Federal expenditures should be marked, as federal expenditures to ensure proper accounting and a separate line item should be maintained in the appropriation ledger to identify federal expenditures including FEMA expenditures.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

Reference Number 2005-08

Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors (Continued)

We recommend the fiscal court follow OMB Circular A-133 guidelines for preparation of the government's SEFA and review for completeness. We further recommend suggested procedures be put into place to ensure all federal grants awarded and expended during a fiscal year are included on the schedule.

County Judge/Executive Charles Wallace's Response:

This was due to timing of homeland security funds and has been corrected.

Reference Number 2005-09

Carter County Fiscal Court Did Not Maintain Appropriate Records For \$286,485 In Federal Emergency Management Agency Expenditures

The fiscal court did not maintain appropriate records of Federal Emergency Management Agency (FEMA) projects totaling \$286,485. The majority of the project files contained only project worksheets and did not include the required information recording that the work was completed, what work was completed, when and where the work was done, and why this work was done.

We could not readily verify the accuracy of the project cost estimates or reconcile costs for small projects. The fiscal court subsequently provided the requested documentation.

According to the FEMA Policy Handbook, a grant recipient is required to establish and maintain accurate records of events and expenditures related to disaster recovery work. FEMA also states that all of the documentation pertaining to a project should be filed with the corresponding project worksheet and be maintained by the applicant as the permanent record of the project. These records become the verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits.

We recommend the fiscal court begin the record keeping process before a disaster is declared and ensure that work performed both before and after a disaster declaration is well documented. Fiscal court's designated person should ensure the compilation and filing of records by establishing a file for each site where work has been or will be performed and maintain accurate disbursement and accounting records to document the work performed and the costs incurred.

County Judge/Executive Charles Wallace's Response:

Records have been brought up do date. New procedures have been implemented to ensure proper documentation in the future.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

Reference Number 2005-10

Carter County Fiscal Court Should Approve All Payments Of Administrative Cost Related To Federal Emergency Management Agency Grants

During the course of our audit, no payments were distributed for Federal Emergency Management Agency (FEMA) administrative costs, which are allowable under FEMA guidelines. On March 11, 2003, the fiscal court approved the county's applicant agent (both current and former employees of the county) to receive a percentage payment, not to exceed 3% of the FEMA grants for work completed on FEMA projects. The applicant agent's job duties are to be the disaster coordinator. Based upon this percentage the payments to these employees could exceed \$62,000. This agent is responsible to assist FEMA inspectors by reviewing damaged areas, creating project worksheets, as well as being responsible for the recordkeeping of federal disasters. The fiscal court stated that county employees should complete this work on their own time. However, when we requested documentation of administrative time none could be provided. The current FEMA applicant stated he did not keep an ongoing record of time spent on federal disasters and the Judge/Executive stated the employee would receive a Form 1099 when paid.

FEMA requires documentation of expenditures to be kept as a permanent record of all disaster projects. Also, IRS Circular E states that an employee cannot be an employee and a contract laborer performing similar duties.

We recommend the fiscal court review all appropriate federal and state labor laws as well as federal regulations relating to FEMA. We further recommend fiscal court not make any payments without proper documentation including but not limited to the amount of time, dates, and hours worked by the FEMA applicants for administrative duties outside their normal work hours.

County Judge/Executive Charles Wallace's Response:

Applicant agent is currently working on required documentation to turn over to Fiscal Court. If proper documentation is received and payment is made according to labor laws, agent will be issued a W-2.

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2005

<u>Program Title</u>	<u>Grant Identification No.</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>	<u>Total By CFDA #</u>
U.S. Department of Housing and Urban Development				
<i>Passed through Governor's Office for Local Development</i>				
Community Development Block Grant	B-01-044	14.228	\$ 4,000	\$ 4,000
U.S. Department of Transportation				
<i>Passed Through KY Transportation Cabinet</i>				
Highway Research and Development Grant	C-04202051	20.200	223,891	223,891
U.S. Department of Homeland Security				
<i>Passed Through KY Department of Military Affairs</i>				
Public Assistance Grants:				
Disaster Grant	FEMA-1454-DR	97.036	15,548	
Disaster Grant	FEMA-1471-DR	97.036	34,425	
Disaster Grant	FEMA-1475-DR	97.036	36,334	
Disaster Grant	FEMA-1523-DR	97.036	200,178	286,485
TOTAL FEDERAL EXPENDITURES			\$ 514,376	

CARTER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carter County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Carter County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- 2005-01 Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest
- 2005-03 Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures
- 2005-05 Carter County Fiscal Court Road Logs Do Not Agree
- 2005-06 Lacks Adequate Segregation Of Duties
- 2005-08 Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carter County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2005-02 The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics"
- 2005-04 Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 9, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Carter County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Carter County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Carter County's management. Our responsibility is to express an opinion on Carter County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carter County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Carter County's compliance with those requirements.

In our opinion, Carter County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

- 2005-07 Carter County Fiscal Court Has Questioned Costs Of \$3,737 In Federal Emergency Management Agency Funds Due To The Same Invoice Being Used For Multiple Roads
- 2005-08 Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors
- 2005-09 Carter County Fiscal Court Did Not Maintain Appropriate Records For \$286,485 In Federal Emergency Management Agency Expenditures
- 2005-10 Carter County Fiscal Court Should Approve All Payments Of Administrative Cost Related To Federal Emergency Management Agency Grants

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

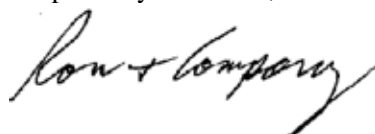
Internal Control Over Compliance

The management of Carter County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Carter County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
October 9, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

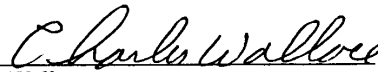
CARTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

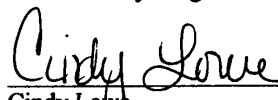
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles Wallace
Carter County Judge/Executive



Cindy Lowe
Carter County Treasurer

Lab-Tronics, Inc.

Lab-Tronics, Inc.

511-34th Street

Catlettsburg, Ky. 40301

Tel. 800-745-5479

Fax 606-739-0023

To: Carter Co. Fiscal Court

Date: 8/13/02

Expiration: 60 Days

Topic: Carter Co. Communications Proposal

Lab-Tronics Did.....\$316,459.00

Lab-Tronics does request 1/3 down, (\$107,596.00)

and the balance upon completion. (\$208,863.00)

Tower rent:

\$200.00 per month for each of the 3 sites.

(Rent free for the first year.)

Herbert Rice

